

Machinery and equipment used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease are exempt from Retailers' Occupation Tax. Supplies, such as consumables, do not qualify for the manufacturing machinery and equipment exemption. See 86 Ill. Adm. Code 130.330. (This is a GIL.)

August 3, 1999

Dear Xxxxx:

This letter is in response to your letter dated June 28, 1999. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

We are a manufacturer of electrical switchboard equipment.

We manufacture this equipment from raw material.

As part of our manufacturing process, prior to painting the equipment, we use paint thinner to clean the surface of the raw material.

When we invoice out our product, we invoice it with sales tax calculated on our total cost, which would include the paint thinner indicated above.

We have a supplier that is claiming that sales tax on this product (paint thinner) is not tax exempt, based on some ruling that had to do with an automobile repair shop.

As stated above, we are a manufacturer.

Could we please have your ruling on this situation.

Machinery and equipment that are used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease are exempt from Retailers' Occupation Tax. See the enclosed copy of 86 Ill. Adm. Code 130.330. The manufacturing process is the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, processing, fabricating, or refining that changes some existing material or materials into a material with a different form, use, or name. These changes must result from the process in question and be substantial and significant. Consumable supplies, such as paint thinner, do not qualify for the manufacturing machinery and equipment exemption. See Section 130.330(c)(3).

August 3, 1999

Similarly, consumable supplies cannot be purchased for resale. Your supplier is referring to letters stating that Use Tax is due on consumable supplies used by servicemen in an auto repair shop. Paint that is physically incorporated into a vehicle under repair is exempt when purchased by a body shop with a valid Certificate of Resale. However, consumable supplies used by a body shop are taxable to the body shop when the body shop purchases these items. Examples of such items include wax and grease removers, sandpaper, masking tape, buffing and polishing compounds, paint thinner, and sundry items that do not physically stay on a vehicle when the vehicle leaves the body shop. Therefore, such consumable supplies are subject to Use Tax when purchased by a body shop. They cannot be purchased for resale. The same principles apply to supplies used by manufacturers in manufacturing their products. Supplies, such as paint thinner, used by manufacturers to clean the surface of raw materials, are subject to Use Tax.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Gina Roccaforte  
Associate Counsel

GR:msk

Enc.